Motor Vehicles, Model Year 1995

By Ralph W. Morris

SALES OF new motor vehicles in the United States totaled 15.2 million units in model year 1995—unchanged from 1994, when a 9.1-percent increase took sales to a 5-year high (chart 1).[1] However, this level of sales is well below the peak of 16.1 million units reached in 1986. In 1995, an increase in sales of trucks was offset by a decrease in sales of cars (table 1).

The continued high level of motor vehicle sales in 1995 reflected favorable developments in many of the economic factors that are usually considered in analyses of consumer spending. Constant-dollar disposable personal income increased 4.0 percent. The unemployment rate decreased for the third consecutive year. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) reached its highest level in 6 years.

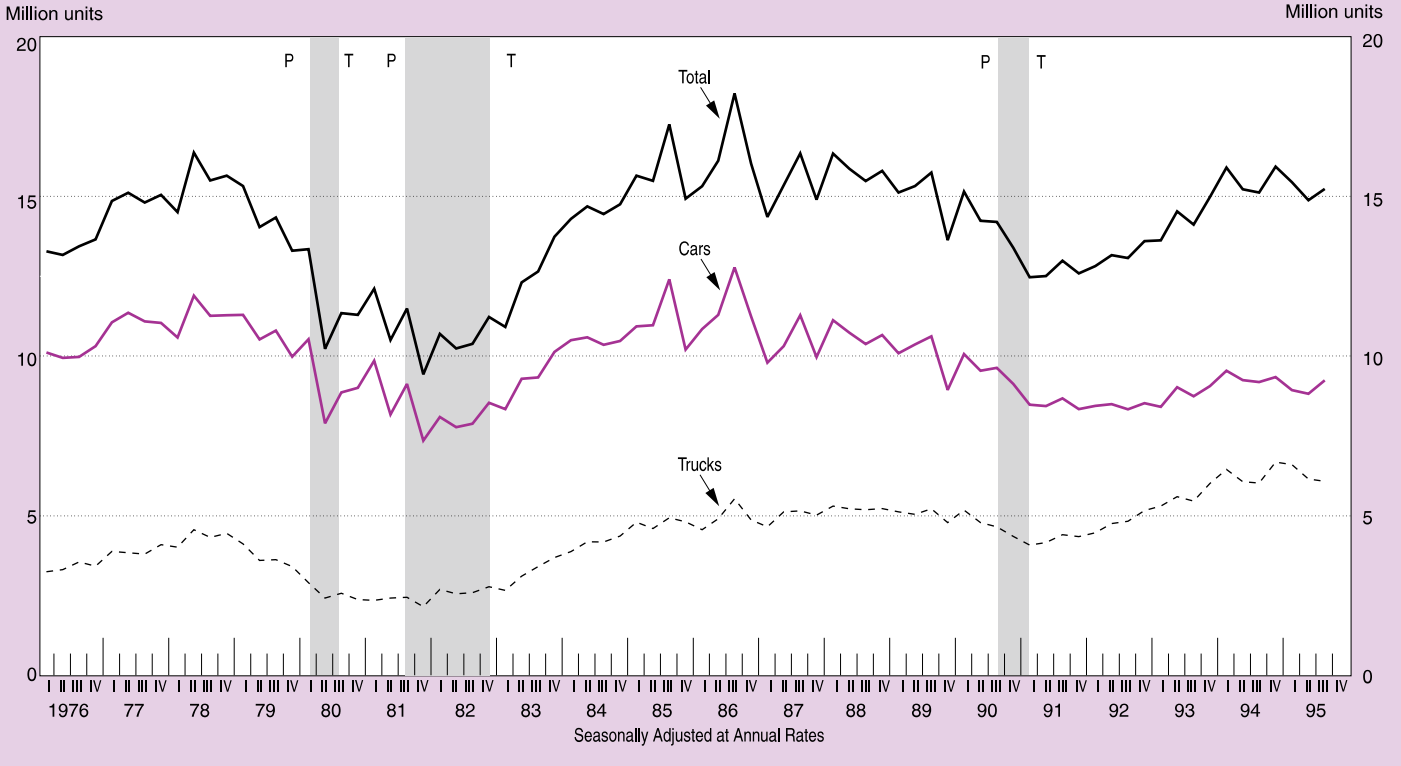
Several factors specific to the motor vehicle industry were also favorable. Throughout 1995,

1. This article uses data on unit sales, inventories, and production mainly from the *Ward's Automotive Reports* and the American Automobile Manufacturers Association, Inc., and data on prices mainly from the Automobile Invoice Service and the Bureau of Labor Statistics, U.S. Department of Labor. These data underlie the estimates of auto and truck output in the national income and product accounts.

For this article, the model year is defined as beginning on October 1 and ending on the following September 30. Thus, model year 1995 covers the fourth calendar quarter of 1994 and the first, second, and third calendar quarters of 1995. All years mentioned in this article are for model years unless otherwise stated.

CHART 1

New Motor Vehicle Sales



Note.— Peak (P) indicates the end of business cycle expansion and the beginning of recession (shaded area). Trough (T) indicates the end of business cycle recession and the beginning of expansion. Business cycle peaks and troughs designated by the National Bureau of Economic Research, Inc.
Data: American Automobile Manufacturers Association, Inc. and *Ward's Automotive Reports,* seasonally adjusted by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis

sales to consumers were spurred by manufacturers' sales-incentive programs that were generally more attractive than those offered in 1994 and that covered many formerly excluded models; these programs included rebates, below-market-rate financing, and discount packages on optional equipment. In addition, the increase in the consumer price index (CPI) for new cars was smaller than the increase in the overall CPI in 1995.

However, motor vehicle sales may have been constrained by higher interest rates on new-car loans to consumers. Rates on loans made by auto finance companies averaged 11.1 percent in 1995 after averaging 9.4 percent in 1994. Rates on loans made by commercial banks averaged 9.4 percent after averaging 7.8 percent (chart 2).

One long-term trend that has dampened motor vehicle sales in recent years probably continued in 1995. Owners are keeping their vehicles longer; according to the American Automobile Manufacturers Association, the average age of cars on the road, which has been increasing steadily since the early 1980's, reached 8.4 years in calendar year 1994. (Data for 1995 are not yet available).

Leasing.—Another long-term trend that has affected motor vehicle sales in recent years has been the growth in new-vehicle leasing by consumers. In 1995, manufacturers continued to emphasize leasing arrangements in their marketing strategies, and consumers continued to respond. Nearly 30 percent of new cars and light trucks operated by consumers in 1995 were leased, compared with about 10 percent in 1986, the year before leasing began to increase sharply.[2]

Lease terms can be designed to hold down monthly payments or to hold down initial cash outlays. Either way, consumers may be induced to lease more expensive, better-equipped vehicles than they would be able or willing to buy. Businesses (that is, the leasing companies) must purchase the vehicles before consumers can lease them; thus, one effect of leasing is to shift vehicle sales from consumers to business.

Leased vehicles generally have low mileage when their leases expire, and they are well equipped with options and safety features. Thus, they are attractive alternatives to new vehicles. Some industry surveys suggest that the increase in consumer spending on used cars in recent years is partly attributable to the availability of formerly leased cars in the used-car market.

2. Information on leasing was provided by CNW Marketing Research.

Table 1.—Selected Motor Vehicle Indicators

	Model year[1]						Seasonally adjusted annual rates				
							1994		1995		
	1990	1991	1992	1993	1994	1995	III	IV	I	II	III
	Thousands of units										
New motor vehicle sales	14,169	12,756	12,868	13,913	15,179	15,233	15,030	15,842	15,346	14,783	15,133
New-car sales	9,436	8,589	8,334	8,606	9,150	8,970	9,093	9,249	8,841	8,726	9,147
Domestic	6,790	6,276	6,195	6,595	7,173	7,167	7,086	7,423	7,031	6,907	7,391
U.S. nameplates	5,758	5,137	5,048	5,348	5,707	5,518	.....	.....	.....	.....	.....
Transplants	1,032	1,140	1,146	1,247	1,466	1,649	.....	.....	.....	.....	.....
Import	2,645	2,313	2,140	2,011	1,977	1,803	2,007	1,826	1,810	1,819	1,756
New-truck sales	4,733	4,167	4,533	5,307	6,029	6,263	5,937	6,593	6,505	6,057	5,986
Light	4,428	3,914	4,273	4,987	5,654	5,836	5,548	6,172	6,047	5,616	5,587
Domestic	3,996	3,582	4,026	4,789	5,499	5,666	5,361	5,986	5,835	5,454	5,454
Import	432	333	247	199	155	170	186	186	212	162	133
Other	306	253	261	320	375	427	389	421	457	441	399
Domestic-car production	6,231	5,454	5,643	5,827	6,539	6,466	6,465	6,741	7,066	6,019	6,200
Domestic-car inventories[2]	.....	.....	.....	.....	.....	.....	1,400	1,480	1,701	1,656	1,579
Domestic-car inventory-sales ratio[3]	.....	.....	.....	.....	.....	.....	2.37	2.39	2.90	2.88	2.56
	Dollars										
Average expenditure per new car[4]	15,926	16,650	17,825	18,585	19,463	19,757	20,045	19,887	19,495	19,815	19,829
Domestic	15,470	16,215	17,152	17,519	18,198	18,354	18,843	18,429	18,003	18,443	18,539
Import	17,116	17,830	19,792	22,093	24,078	25,344	24,288	25,810	25,288	25,022	25,256

1. A model year begins on October 1 and ends on September 30. Thus, it covers the fourth quarter of one calendar year and the first three quarters of the next calendar year. Model year 1995, for example, encompasses the fourth quarter of 1994 and the first, second, and third quarters of 1995.
2. End of quarter, not at annual rate.
3. Ratio of end-of-quarter inventories to average monthly sales for the quarter.
4. BEA estimate based on the manufacturer's suggested retail price (adjusted for options, discounts or premiums, and sales taxes) for each model, weighted by each model's share of sales; not at annual rates.

Source: American Automobile Manufacturers Association, Inc. and Ward's Automotive Reports; data are seasonally adjusted by BEA.

New Cars

Sales of new cars decreased 2.0 percent in 1995 to 9.0 million units after increasing 6.3 percent in 1994. Sales of domestic cars were unchanged, as a decrease in sales of domestic-nameplate cars was offset by an increase in sales of "transplant" cars; sales of imported cars decreased.[3]

The average expenditure per new car increased 1.5 percent to $19,757 in 1995.[4] The increase may have partly reflected a change in the mix of cars sold: Sales of middle-sized cars increased, and sales of small cars decreased. Another factor in the increase was increased sales of models with additional features, such as driver-side and front-passenger-side airbags, antilock brakes, air conditioning, and power windows.

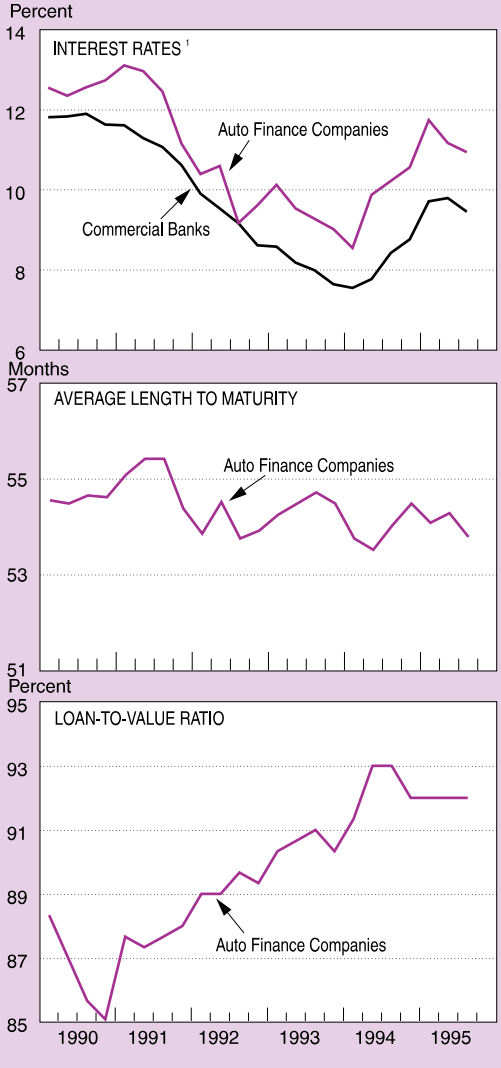
Sales of domestic cars were unchanged at 7.2 million units in 1995. Sales of domestic-nameplate cars decreased 3.3 percent in 1995 after increasing 6.7 percent in 1994; sales of transplant

3. Sales of domestic cars and trucks consist of sales of vehicles manufactured in North America and sold in the United States. Domestic-nameplate vehicles are those manufactured in North America at factories owned by U.S. companies. "Transplant" vehicles are those manufactured in North America at foreign-owned factories. Imported cars and trucks are those manufactured outside North America and sold in the United States.

4. BEA derives the average expenditure per new car by weighting each model's suggested retail price (adjusted for options, discounts or premiums, and sales taxes) by its share of sales. The average expenditure reflects changes in the mix of models and options sold and includes cars sold to consumers, businesses, and governments. An improved methodology for estimating average expenditure per new car will be introduced in the upcoming comprehensive revision of the national income and product accounts.

CHART 2

Finance Terms on 48-Month New Car Installment Loans



1. Most common interest rates (annual percentage rate) at reporting institutions.
Data: Federal Reserve Board.

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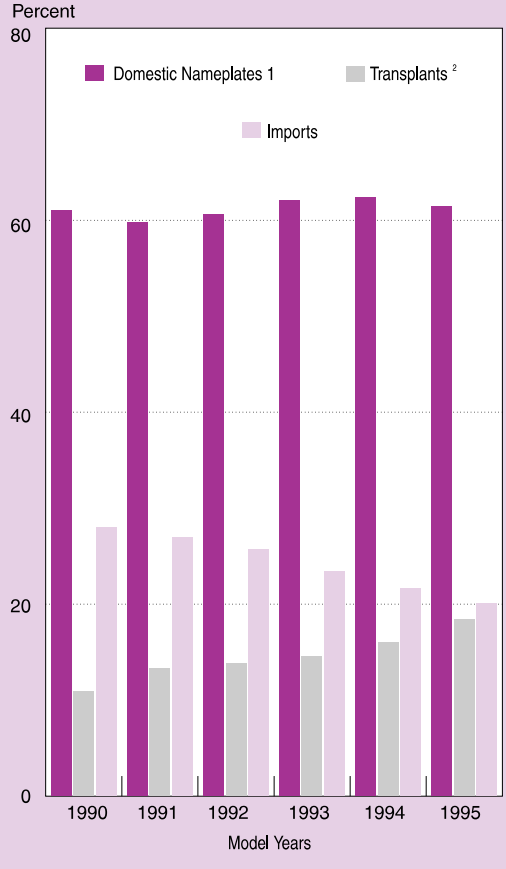
CHART 3

Share of New Cars by Source



1. Domestic nameplates are cars manufactured in North America at factories owned by domestic companies.
2. Transplants are cars manufactured in North America at factories owned by foriegn companies.
Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports, seasonally adjusted by BEA.

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cars increased 12.5 percent after increasing 17.6 percent.

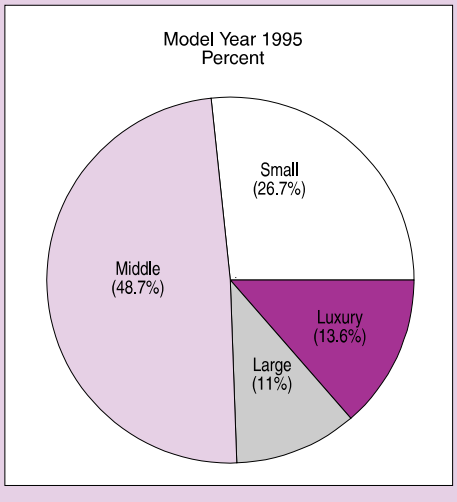
Sales of imported cars decreased 8.8 percent to 1.8 million units, the lowest level since 1976. The decrease continues a trend that began in 1988 and that largely reflects shifts in production by foreign manufacturers from overseas plants to transplants; most of the models manufactured at transplants were previously manufactured overseas and imported. In addition, the decrease may have reflected larger price increases for Japanese cars than for domestic cars as a result of the 10.6-percent depreciation of the U.S. dollar against the Japanese yen. Despite the depreciation of the dollar against most European currencies (including the German mark), sales of cars imported from Europe increased moderately in 1995.

The market share (percent of total new-car sales) of domestic-nameplate cars decreased to 61.5 percent in 1995 from 62.4 percent in 1994 (chart 3). The market share of transplant cars increased to 18.4 percent from 16.0 percent. The market share of imported cars decreased to 20.1 percent from 21.6 percent; their share had peaked at 30.5 percent in 1987.

By size class, the 1995 decrease in car sales was accounted for by sales of small cars and large cars; sales of middle-sized cars increased, and sales of luxury cars changed little (chart 4). Sales of small cars decreased to 2.3 million, and their market share decreased to 26.7 percent from 30.6 percent.

CHART 4

Share of New Car Sales by Size Class



Note—Based on data for October 1, 1994 through September 30, 1995.
Data: *Ward's Automotive Reports*

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Sales of large cars decreased to 1.0 million, and their market share decreased to 10.9 percent from 11.6 percent. Sales of middle-sized cars increased to 4.3 million, and their market share increased to 48.8 percent from 44.3 percent. Sales of luxury cars were unchanged at 1.2 million; however, their market share increased to 13.6 percent from 13.4 percent because of the decline in total cars sales.

Domestic-car production was 6.5 million units in 1995—unchanged from 1994 (the highest level in 5 years). Domestic-car inventories were 1.6 million units at the end of the 1995 model year, slightly higher than at the end of 1994. The inventory-sales ratio was 2.6 at the end of the year; the traditional industry target is about 2.4.

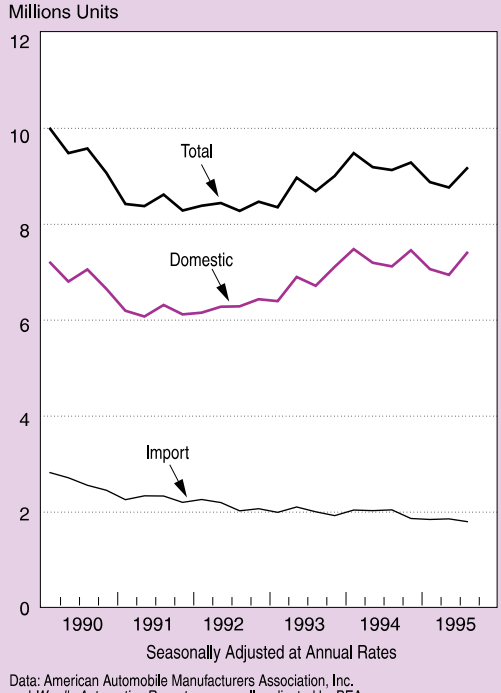
By quarter, car sales increased in the first and last quarters of model year 1995 and decreased in the middle two quarters (chart 5).

New Trucks

Sales of new trucks increased 3.9 percent to a record 6.3 million units in 1995 after increasing 13.6 percent in 1994. The 1995 increase was mainly accounted for by an increase in sales of light domestic trucks; sales of light imported trucks and

CHART 5

Retail Sales of New Cars



Data: American Automobile Manufacturers Association, Inc. and *Ward's Automotive Reports*, seasonally adjusted by BEA.

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Data Availability

BEA prepares seasonally adjusted monthly estimates of auto and truck unit sales, auto unit production and inventory change, and average expenditure per car. These estimates are available on printouts and diskettes by subscription. For order information, write to the National Income and Wealth Division (BE-54), Bureau of Economic Analysis, Washington, DC 20230, or call (202) 606–9700.

"other" trucks also contributed to the increase.[5] The share of total new motor vehicle sales accounted for by trucks increased to a record 41.1 percent in 1995 from 39.7 percent in 1994.

Sales of light trucks (domestic and imported) increased 3.2 percent to 5.8 million in 1995 after increasing 13.4 percent in 1994 and 16.7 percent in 1993. Most light-truck purchases are for personal use rather than for business use; consequently, many of the same factors that affect car sales also affect light-truck sales. The relative strength of light-truck sales in 1995 reflected, in part, the continuation of a 14-year trend in which truck purchases have been substituted for car purchases. The trend is strongest for families purchasing second and third vehicles; these families often prefer the recreation and utility features, such as increased passenger and load-carrying capacity, that light trucks offer. In addition, trucks are increasingly purchased as primary vehicles; additional equipment and refinements in the newly designed truck models have blurred the distinction between trucks and cars in terms of function and comfort.

Sales of light domestic trucks increased 3.0 percent in 1995, following increases of 14.8 percent in 1994 and 19.0 percent in 1993. Sales of these trucks in recent years may have been boosted by introductions of several new and redesigned models. Sales of domestic-nameplate trucks increased 3.7 percent to 5.2 million units; their market share of total light-truck sales increased to 89.4 percent. Sales of transplant trucks decreased 3.9 percent to 0.4 million units; their market share decreased to 7.7 percent.

Sales of light imported trucks increased 9.7 percent to 0.2 million units after falling 22.1 percent in 1994; sales had decreased every year since 1988. The imported-truck share of light-truck sales increased to 2.9 percent in 1995.

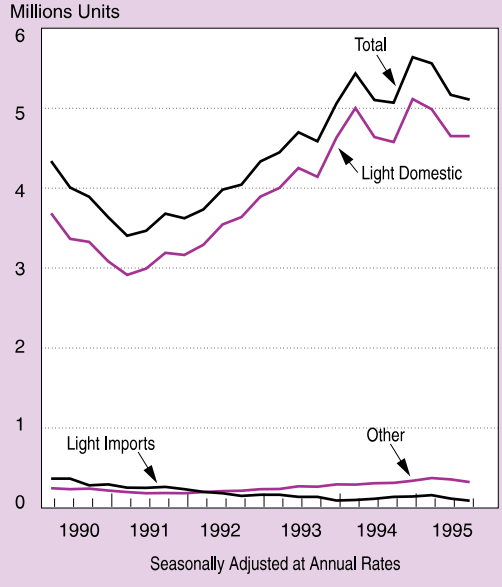
Sales of "other" trucks increased 13.9 percent to 0.4 million units. Sales of these trucks have increased considerably in the last 3 years; in particular, sales of heavy-duty diesel tractor-trailers have been strong.

By quarter, trucks sales increased sharply in the first quarter of model year 1995 and then decreased in the next three quarters (chart 6).

5. Light trucks are those with a gross vehicle weight of up to 10,000 pounds; these trucks include light conventional pickups, compact pickups, sport-utility vehicles, and passenger vans. "Other" trucks are those with a gross vehicle weight of over 10,000 pounds; these trucks range from medium-duty general delivery trucks to heavy-duty diesel tractor-trailers.

CHART 6

Retail Sales of New Trucks



Note—Retail sales of domestic trucks are classified by gross vehicle weight as light (up to 10,000 pounds) and "other" (over 10,000 pounds). Imported trucks include imports by U.S. manufacturers.
Data: American Automobile Manufacturers Association, Inc. and *Ward's Automotive Reports*, seasonally adjusted by BEA.

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